EXHIBIT

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Hay Group, Inc.

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July 30, 2001

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Confidential

Mr. Joseph Haskins
Chairman, Executive Compensation Committee
CareFirst, Inc.
10455 Mill Run Circle
Owings Mills, MD 21117-5559

Dear Joe:

As you requested at your Committee meeting on March 23, 2001, we have updated competitive pay levels for Trigon HealthCare Inc, and WellPoint Health Networks Inc. to reflect March, 2001, proxy information. We have also analyzed recent retention bonuses provided by other health services/health insurance organizations going through a merger. The enclosed exhibits reflect the results of our analyses and recommendations for Committee action.

One of the major assets of CareFirst is its executive management team. It helps the organization be successful, and it has value in a merger. Therefore, it is essential for the key members of that team to stay with the organization until the merger takes place. Retention bonuses are common tools to ensure the retention of those executives.

Exhibit I

This is an update of compensation paid to the top five positions at Trigon. The table reflects 2000 pay levels for five positions, as opposed to only the CEO. The main point to make relates to the use of incentives. Both short-term and long-term incentives are much higher (as a % of base salary) than for CareFirst.

Exhibit II

This is the same type of information presented in *Exhibit I*, except it is for WellPoint. In general, the short- and long-term incentives (as a % of base salary) are higher than those of Trigon.

Exhibit III

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This is a very important table that reflects performance-based retention incentives paid to five executives at Cerulean Companies, Inc. (formerly BCBS of Georgia, which merged with WellPoint). With last-minute bidding by several parties, the merger consideration rose to $700 million. As a result, the awards paid to these officers rose as well. You will

note that the % of CEO Award remained the same as we saw last time, but the dollar figures are much higher.

Exhibit IV

This shows the current Change of Control Provisions, under executive employment contracts, in place at CareFirst. This policy is in the best interests of the stakeholders, contractholders, and key executives to ensure critical contributors and leaders are kept in place and productive. This helps keep strategy and performance on track, and it supports the maximization of CareFirst's investment value. We next analyze how similar organizations have tied executive compensation to increased value in other mergers.

Exhibit V

This compilation was assembled by Piper Marbury Rudnick Wolfe LLP. The table reflects actual transactions for 13 health services/health insurance organizations during the last several years. The merger consideration (size of transaction) ranges between $243 million and $2.2 billion. The actual equity-based compensation is listed for the CEO and for the full executive team (including the CEO). You will note that the CEO at Cerulean received $6,608,820 just as we saw in *Exhibit III*.

The median equity-based compensation for the CEO, as a % of the merger consideratio in the survey is 0.88%. The median for the executive team (including the CEO) is 2.38%. Using a discount factor of 20% because CareFirst is a private company, we arrive at 0.70% and 1.90%.

Appendix A contains three additional exhibits prepared by Frederic W. Cook & Co., Inc. This firm was retained by Piper Marbury Rudnick Wolfe LLP to provide additional data and alternative approaches to valuing the CEO award in a sale transaction. This firm used three different approaches, assuming a $1.0 billion transaction for CareFirst, Inc.:

I. Direct translation of the Cerulean transaction:

- The performance plan payment represented 0.94% of the transaction proceeds.
- $1.0 billion x 0.94% less $1.3 million (amount received under CareFirst's long-term plan over the last three years) equals $8.1 million.

II. Comparison to other CEO transaction-related bonuses:

- Among companies outside the healthcare industry, these bonuses are 400% to 500% of base salary.
- They first calculated $4.0 million of award value.

- They believe that the executives also received increased value in their outstanding stock options as a result of any takeover premium, special bonuses, and possible consulting contracts – if terminated.
- These additional items potentially add, on a conservative basis, an additional 50% of the total.
- The final value is $6.0 million.

III. Comparison to stock option gains of CEOs in similarly-sized, publicly-held peer companies:

- The median total compensation for the most recent 5-year period is $19.7 million.
- Because CareFirst is a private company, this value was discounted by 20% to $15.7 million.
- Mr. Jews' total compensation for this same period totaled $7.3 million.
- The difference between the two figures is $8.4 million. This is one way to measure the reasonableness of a sale incentive.

The average of the three approaches ($8.1 million, $6.0 million, and $8.4 million) is $7.5 million.

Exhibit VI

This table shows what the equity-based compensation levels would be for the CEO and the executive team at CareFirst under three scenarios. Assumed merger considerations of $800 million, $1.0 billion, and $1.2 billion are shown. Using the adjusted median percentages from *Exhibit V*, we calculate the equity-based compensation levels for the CEO and the entire executive team. The adjusted median figures are also close to but below the Cerulean percentages. Again, the Cerulean transaction is the most similar to the anticipated CareFirst merger.

Exhibit VII

This table shows what the equity-based compensation levels would be for the Executive Vice Presidents. This table assumes that the merger consideration is $1.0 billion and that the CEO Award is $7,000,000. This means that, at the maximum level, some $12,000,000 would be distributed among the members of this group. I have used the % of CEO Awards adopted by Cerulean as a guide and modified those percentages, as I understand potential impact of each position in the merger.

The minimum column reflects a multiple of base salary as we have discussed previously. Obviously, Bill Jews needs to be comfortable with my proposed % of CEO Award for each executive. Likewise, he may choose to position someone between the minimum and

the maximum based on his perception of overall contribution. However, this should be finalized as soon as possible, so all parties know where they stand going into the merger.

Recommendations

Adopt the percentages of merger consideration shown in *Exhibit VI.* They produce highly competitive awards and encourage the executive team to maximize the merger consideration. The final decision is not totally driven by the merger consideration, as less quantifiable social issues are also very important. But to be competitive, as we see in the Cerulean transaction, the awards should be consistent with *Exhibit VI.*

Based on the 2000 Executive Compensation Advisory Services (ECAS) Survey of Merger and Acquisition Retention Awards, the following retention bonuses are recommended:

Position	Retention Bonus
CEO	Variable
EVPs	Variable
SVPs	1.5 x Base Salary
Selected VPs	1.0 x Base Salary
Others Selected	0.5 x Base Salary

These bonuses are intended to retain the executives for the 18-24 months involved in a typical merger. Payment is made either at the time of closing or when the merger is cancelled. The bonuses approximate the Median (50th Percentile) of the ECAS Survey for retention awards. This survey has 130 organizations in it, and all have gone through a recent merger. They are mostly for-profit companies in a variety of industries - including health care. CareFirst is generally in the middle of the survey group, in terms of revenue. Further details concerning this survey are shown in *Exhibit VIII.*

If we assume a merger consideration of $1.0 billion and maximum payouts, we have the following awards for *all* key executives:

Number	Title	Award
1	CEO	$7,000,000
6	EVP	$12,000,000
8	SVP	$2,895,000
23	VP	$3,877,000
36	Director	$1,697,000
74		$27,469,000

The awards for the CEO and the EVPs vary with the merger consideration. The others are based on multiple of base salary and not subject to change. The total amount represents 2.7469% of the merger consideration. Cerulean awarded $30,027,030 (4.2896% of the merger consideration) to its key executives. In addition, Cerulean awarded another $17,862,970 to other employees. In total, Cerulean awarded $47,890,000 (6.8414% of the merger consideration) in merger retention bonuses.

I believe Sharon Vecchioni will be arranging a conference call so we can discuss this matter further. In the meantime, please let me know if you have any questions.

Sincerely,

Donald G. Barnes

Donald G. Barnes
Vice President

cc: Sharon Vecchioni
EVP & Chief of Staff

Enclosures

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Exhibit I

Trigon Healthcare Inc.

*2000 Compensation**

Name	Title	Base Salary	Bonus/Short-Term Incentive	% of Base Salary	Total Cash	Long-Term Incentive	% of Base Salary	Total Direct Compensation
Thomas G. Snead, Jr.	COB & CEO	$550,866	$661,475	120%	$1,212,341	$2,920,350	530%	$4,132,691
James W. Copley, Jr.	SVP & Chief Investment Officer	$205,500	$726,289	353%	$931,789	$332,600	162%	$1,264,389
Paul F. Nezi	SVP, Virginia Group Business	$270,400	$216,320	80%	$486,720	$377,881	140%	$864,601
William P. Bracciodieta, M.D.	SVP & Chief Medical Officer	$265,000	$212,000	80%	$477,000	$377,803	143%	$854,803
Thomas R. Byrd	SVP & Chief Financial Officer	$262,000	$209,600	80%	$471,600	$379,535	145%	$851,135

*Source: 2000 Annual Report and Form 10-K
(2000 Revenues: $2.6 billion)

Exhibit II

WellPoint Health Networks Inc.

*2000 Compensation**

Name	Title	Base Salary	Bonus/Short-Term Incentive	% of Base Salary	Total Cash	Long-Term Incentive	% of Base Salary	Total Direct Compensation
Leonard D. Schaeffer	COB & CEO	$1,076,922	$3,098,864	288%	$4,175,786	$5,449,935	506%	$9,625,721
Ronald A. Williams[∇]	EVP, Large Group Businesses	$588,846	$926,765	157%	$1,515,611	$2,309,300	392%	$3,824,911
D. Mark Weinberg	EVP, Individual Small Group Businesses	$561,923	$753,254	134%	$1,315,177	$1,979,400	352%	$3,294,577
Joan E. Herman	EVP, Senior, Specialty and State-Sponsored Program Division	$401,000	$657,552	164%	$1,058,552	$1,530,126	382%	$2,588,678
David C. Colby	CFO & EVP	$459,846	$610,620	133%	$1,070,466	$1,624,396	353%	$2,694,862

*Source: 2000 Annual Report and Form 10-K
(2000 Revenues: $9.2 billion)

[∇] No longer with the Company as of 3/16/01

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Exhibit III

Recent Market Comparison

Cerulean Companies, Inc.
(Formerly BCBS of Georgia; merged with WellPoint)

Title	Name	Awards Paid at Time of Merger*	% of CEO Award
President & CEO	Richard D. Shirk	$6,608,820	100%
EVP & COO	Richard F. Rivers	$1,436,700	22%
Treasurer, EVP of Finance & Strategic Planning	John A. Harris	$3,208,630	49%
EVP & Chief Medical Officer	Mark Kishel	$2,633,950	40%
SVP & Chief Information Officer	Stuart G. Wright	$1,197,250	18%

*Source: 12/21/00 Form DEFM14A

Company	2000 Revenues ($M)
CareFirst, Inc.	$5,200
Cerulean Companies, Inc.	$2,030

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Exhibit IV

Change of Control Provisions

CareFirst, Inc.

Title	Name	Assumed Base Salary	Assumed STI (Tgt.)	Current COC Provisions	Multiple of Base & STI (Tgt.)
President & CEO	William L. Jews	$900,000	$540,000	$4,320,000	3X
EVP	Multiple	$400,000	$180,000	$1,160,000	2X
SVP	Multiple	$250,000	$87,500	$506,250	1.5X
Selected VP's	Multiple	$180,000	$54,000	$351,000	1.5X

Exhibit V

CareFirst, Inc.

Equity-Based Compensation Comparative Transactions

				CEO			All Executive Officers as a Group, Including CEO		
	Transaction (Target / Acquiror) (1)	Date of Merger Agreement	Merger Consideration	Equity-Based Compensation (2)	Equity-Based Compensation as % of Merger Consideration	Equity-Based Compensation as % of Increase in Market Capitalization (3)	Equity-Based Compensation (2)	Equity-Based Compensation as % of Merger Consideration	Equity-Based Compensation as % of Increase in Market Capitalization (3)
1	Cerulean/Wellpoint	3/15/01	$ 700,000,000	$ 6,608,820	0.94%	4.60%	$ 17,862,970	2.55%	12.43%
2	Quorum Health / Triad Hosp.	01/24/01	$ 1,053,422,861	$ 6,478,216	0.61%	5.37%	$ 15,053,292	1.43%	12.47%
3	Wash. Nat'l / Conseco	12/05/97	$ 400,678,460	$ 1,247,438	0.31%	1.47%	$ 6,505,778	1.62%	7.65%
4	Value Health/Columbia HCA	08/06/97	$ 1,119,967,829	$ 2,262,060	0.20%	0.76%	$ 7,419,770	0.66%	2.50%
5	Reliable / Unitrin	11/06/97	$ 200,205,600	$ 21,153,446	10.57%	25.45%	$ 67,299,783	33.62%	80.97%
6	ChoiceCare / Humana	10/17/97	$ 243,289,585	$ 2,552,000	1.05%	2.69%	$ 5,359,200	2.20%	5.66%
7	Physician Corp / Humana	06/02/97	$ 269,562,599	$ 2,380,000	0.88%	0.00% (4)	$ 9,499,600	3.52%	0.00% (4)
8	Phys. Health/Foundation Health	05/08/97	$ 264,101,481	$ 2,430,000	0.92%	1.92%	$ 10,461,393	3.96%	8.25%
9	Healthsource / CIGNA	02/27/97	$ 1,403,995,081	$ 44,230,000	3.15%	59.20%	$ 46,290,720	3.30%	61.95%
10	FHP Int'l Corp. / Pacificare	11/18/96	$ 2,196,592,020	$ 4,181,625	0.19%	0.70%	$ 8,092,547	0.37%	1.36%
11	Foundation Health/ Health Sys. Int'l	10/01/96	$ 1,870,000,000	$ 3,905,000	0.21%	0.59%	$ 6,159,834	0.33%	56.62%
12	HealthWise / UnitedHealthCare	04/12/96	$ 270,080,367	$ 9,805,962	3.63%	14.09%	$ 12,146,762	4.50%	17.46%
13	OrNda / Tenet Healthcare	10/16/96	$ 1,901,163,947	$ 14,475,000	0.76%	1.70%	$ 19,533,532	1.03%	2.30%
	AVERAGE		$ 832,857,990	$ 9,362,274	1.80%	9.88%	$ 17,821,937	4.84%	24.30%
	MEDIAN		$ 550,339,230	$ 4,181,625	0.88%	2.30%	$ 10,461,393	2.38%	12.43%
	75% of Median				0.66%			1.78%	

(1) Acquisitions in the health services/ health insurance industry since January 1, 1996, excluding acquisitions in which the merger consideration is less than $200 million or more than $5 billion.

(2) "Equity-Based Compensation" means (a) for transactions that did not result in accelerated vesting of stock options, the increase in the value of the options over the 18-month period prior to the merger, and (b) for transactions that resulted in accelerated vesting, the full value of the stock options.

(3) "Increase in Market Capitalization" means the excess of the merger consideration over the market capitalization of the target corporation 18 months prior to merger

(4) Stock value and therefore market capitalization of Physician Corporation decreased over the 18-month period prior to the date of the merger agreement

Exhibit VI

Equity-Based Compensation for Executive Officers

Under Three Scenarios

Merger Consideration	CEO		All Executive Officers, Including CEO	
	Equity-Based Compensation	Compensation as a % of Merger Consideration	Equity-Based Compensation	Compensation as a % of Merger Consideration
$800,000,000	$5,600,000	0.70%	$15,200,000	1.90%
$1,000,000,000	$7,000,000	0.70%	$19,000,000	1.90%
$1,200,000,000	$8,400,000	0.70%	$22,800,000	1.90%

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Exhibit VII

Range of Equity-Based Compensation for Non-CEO Executive Officers

(Assuming a $1,000,000,000 Merger Consideration)

Name	Title	Minimum*	Maximum	% of CEO Award
David Wolf	EVP – Medical Systems	$1,335,776	$2,800,000	40%
Leon Kaplan	EVP – Operations	$875,000	$1,750,000	25%
Greg Devou	EVP – Chief Marketing Officer	$853,266	$1,750,000	25%
Mark Chaney	EVP, CFO & Treasurer	$805,408	$1,750,000	25%
John Picciotto	EVP & General Counsel	$704,878	$2,200,000	31%
Sharon Vecchioni	EVP – Chief of Staff	$632,500	$1,750,000	25%
	Totals	**$5,206,828**	**$12,000,000**	

* Based on Multiple of Base Salary

Exhibit VIII

2000 Executive Compensation Advisory Services Survey of Merger and Acquisition Retention Awards and Integration/Merger Awards

- 130 Organizations are in the Survey
- 11% are Healthcare Organizations
- 12% are Financial Services Organizations
- 1997-2000 is the Time Frame of the Survey
- The Revenue Median of the Survey is $3.0 Billion
- The Employee Median is 13,100
- The Largest Participant has $82.0 Billion in Revenue
- The Smallest Participant has $29.0 Million in Revenue
- The Biggest Employer has 326,000 Employees
- The Smallest Employer has 169 Employees